

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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USMISSION EC BRUSSELS

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AMEMBASSY HELSINKI

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSIM OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

UNCLAS COPENHAGEN 0910

E.O. 11562: N/A

TAGS: EFIN, EEC, DA

SUBJECT: DANISH REACTION TO FRENCH FRANC FLOAT

1. THE COPENHAGEN FOREIGN EXCHANGE MARKET TUESDAY (MARCH 16) SHOWED LITERALLY NO REACTION TO FRENCH DECISION TO FLOAT FRANC OUTSIDE EC LIMITED MONETARY COOPERATION (MINI-SNAKE). KRONE RATE WITH RESPECT TO DOLLAR AND MAJOR SNAKE CURRENCIES WAS ALMOST UNCHANGED ALTHOUGH IT REFLECTED CONTINUED WEAKENING OF STERLINA AND LIRA.

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2. CENTRAL BANK GOVERNOR SVEND ANDERSEN IN STATEMENTS TO

PRESS CONCEDED THAT IMMEDIATE BUSINESS REACTION TO FRENCH FLOAT HAD CAUSED ENOUGH PRESSURE AGAINST DANISH KRONER TO WARRANT INTERVENTION BY CENTRAL BANK BUT NOT ENOUGH TO CAUSE ANXIETY. ANDERSEN SAW NO REASON FOR PANIC NOR DID HE ANTICIPATE ANY EXTRAORDINARY SUPPORT REQUIREMENTS TO KEEP DANISH KRONE IN LINE WITH SNAKE DEVELOPMENTS. A CENTRAL BANK CONTACT CONFIRMED LATE TUESDAY THAT INTERVENTION WAS STILL NECESSARY BUT AT MODERATE LEVEL; THE MARKET SEEMED WELL UNDER CONTROL. UNCONFIRMED PRESS REPORTS INDICATE THAT DANISH INTERVENTION MONDAY/TUESDAY DID NOT EXCEED \$100 MILLION.

3. DIRECT EFFECTS OF FRENCH DE FACTO DEVALUATION ON DANISH TERMS OF TRADE WILL BE LIMITED BECAUSE OF RELATIVELY SMALL DANISH TRADE WITH FRANCE. INDUSTRY SPOKESMEN FIGURE THAT DANISH BUSINESS WILL INCUR SMALL AND TEMPORARY LOSS PENDING PRICE ADJUSTMENTS.

4. ECONOMIC MINISTER PER HAEKKERUP DOWNPLAYED SIGNIFICANCE OF FRENCH MOVE WHICH, HE SAID, THREATENED NEITHER POSITION OF DANISH KRONE NOR EUROPEAN MONETARY COOPERATION IN GENERAL.

5. EC COMMISSIONER GUNDELACH IN STATEMENT TO DANISH PRESS SAID THAT FRENCH FLOAT WAS NOT CAUSED BY UNDERLYING ECONOMIC FACTORS BUT MERELY BY SPECULATIVE PRESSURES. THIS ONCE AGAIN DEMONSTRATED THE NECESSITY FOR AN ORGANIZED EUROPEAN MONETARY COOPERATION, INCLUDING COMMON EXCHANGE RESERVES, WHICH COULD ENABLE COOPERATING COUNTRIES TO STRIKE HARD AGAINST SPECULATORS. GUNDELACH ACTUALLY SAID THAT IT WOULD BE NECESSARY ONCE AND FOR ALL TO GIVE SPECULATORS A REAL "BLACK EYE" TO STOP FUTURE SPECULATIONS.

6. COMMENT: (A) THE EXPECTED CALMING COMMENTS OF OFFICIAL COMMENTATORS RE DANISH KRONE STABILITY
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HAVE THUS FAR BEEN BORNE OUT BY DEVELOPMENTS. THE SNAKE, RELEASED FROM THE RETARDING INFLUENCE OF THE FRENCH FRANC, HAS NOT MOVED UPWARD RAPIDLY VIS-A-VIS THE DOLLAR, AND THUS THERE HAS BEEN NO CALL FOR MASSIVE SUPPORT OF THE WEAKER SNAKE CURRENCIES, ESPECIALLY THE DANISH KRONE; (B) DANISH KRONE HAS REMAINED AT THE BOTTOM OF THE SNAKE FOR QUITE SOME TIME AND OCASIONAL INTERVENTION HAS BEEN REQUIRED TO KEEP THE SNAKE MARGIN. WHILE THE DANISH BALANCE OF PAYMENTS WAS NEAR EQUILIBRIUM THROUGH THE FIRST

THREE QUARTERS OF 1975, SHARPLY RISING IMPORTS
THEREAFTER (LARGELY SUPPORTED BY THE TEMPORARY VAT
REDUCTION) CAUSED RAPIDLY RISING TRADE AND PAYMENTS
DEFICITS. THE GOVERNMENT HAS ACTIVELY EXPLOITED
FOREIGN CAPITAL MARKETS, HOEVER, AND THE LOSS OF
RESERVES HAS BEEN LIMITED. WHILE THERE IS NO
IMMINENT DANGER OF SEVERE PRESSURES AGAINST RESERVES,
PANICKY BUSINESSREACTION INTHE FORM OF EXPEDITED
DEBT REPAYMENTS COULD CAUSE ACUTE PROBLEMS. THIS
IS ONE REASON THAT THE CENTRAL BANK RECENTLY HAS
PERMITTED DOMESTIC MARKET INTEREST TO RISE BY ALMOST
TWO PERCENT. END COMMENT
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